Taylor, Paul. "Reflections in the Storm." *The Careless State: Wealth and Welfare in Britain Today*. London: Bloomsbury Academic, 2010. 193–206. *Bloomsbury Collections*. Web. 26 Apr. 2023. <<http://dx.doi.org/10.5040/9781849661003.ch-009>>.

Downloaded from Bloomsbury Collections, www.bloomsburycollections.com, 26 April 2023, 05:09 UTC.

Copyright © Paul Taylor 2010. You may share this work for non-commercial purposes only, provided you give attribution to the copyright holder and the publisher, and provide a link to the Creative Commons licence.

CHAPTER NINE

Reflections in the storm

This book was mainly written before the collapse of the global financial system, and before the worsening recession in 2009. The description of the various dangers was not that wide of the mark, and the points about the need for a new model of economic man remained entirely apposite. The point was very clear, though not to our regulators, that it was simply not possible for personal and corporate debt to continue to increase indefinitely and that the continued licence to a few to practice greed and glorying – to use Thomas Hobbes's term – would have to come to an end.

The crisis also made it clear that the globalization of economic arrangements had to be matched by a stronger system of regulation. This was needed at both the national and the global level – one could not work without the other. Gordon Brown's proposal for a reformed IMF to help regulate the global system and to spot developing crises was useful if the national authorities strengthened their own systems.¹ The international organization was inevitably dependent on them for information and support. It was not only the taxpayers of developed countries who had an interest in making this work. The poor of developing countries also paid as the crisis drained money out of their economies.

The downside of the current crisis was all too evident, but did it have a silver lining? It was at least possible that the crisis was a stage in a long-term cycle, mirroring that of the interwar period, with a period of gilded capitalism, to use Krugman's term, up to the late 1920s giving way to a more consensual, even middle-class, capitalist system under Roosevelt, which lasted until the coming of Reagan.² The emergence of consensual America was delayed by mistakes of policy, especially the resort to high levels of protectionism from around 1937. In the twenty-first-century crisis, it was important to avoid such mistakes by not yielding to the temptations of crude protectionism. If this was achieved, at the risk of being Panglossian, the crisis might have been no bad thing

A new world order?

The crisis in the economy was only one of the crises around in 2009. Another was the continuing wars in Iraq and Afghanistan. Gordon Brown's speech in Boston in 2008 appealed for a more positive US attitude towards multilateral

approaches to world problems and the new president seemed prepared to oblige. Was it possible that a better world could emerge out of the disastrous wars in the Middle East and the global economic crisis? The opportunities to improve the international system – the essential background to economic reform – should be looked at first.³

The administration of George W. Bush insisted on its right to act unilaterally in pre-emptive strikes against its enemies. It failed to reduce the number of nuclear weapons agreed in the Non-Proliferation Treaty, refused to accept restrictions on its right to develop and deploy land mines and other anti-personnel weapons and developed a new star-wars system. It strongly opposed the International Criminal Court, set up in 1998; rejected the Kyoto arrangements on climate change; and refused to comply with the decades-old norm on state aid to the developing world, fixed at 0.7 per cent of GDP. Its economic policies in the World Bank, the IMF and the WTO always started from the principle of ‘America First’.

This was all the more regrettable in that much of the multinational system after the Second World War was established under US leadership in the period of consensus between the two US parties. The Iraq disasters may at least have had the benefit of convincing the Bush administration that there had to be a greater involvement with the evolving multilateral system.

Perhaps surprisingly, a number of positive proposals for strengthening multilateralism were agreed later in the Bush administration. For instance there were several concessions on the UN.

UN organization

The 20-year stand-off about US payment to the UN budget was resolved when the United States accepted a return to full funding, though with lower agreed contributions to both the regular assessed budget and the peacekeeping budget. The new Vice-President Joe Biden played a key role in resolving the conflict in the Senate, which augured well for an easier relationship with the UN.

The quality of UN management had also been an issue since the early days. Member governments sought to influence selection, and the Charter required equitable geographical representation. Under US pressure new management principles gave a much stronger role to the Secretary-General to appoint people, after professional search processes, with the right qualifications – to

stress quality above representation. It was also proposed that field officers should be part of the same career structure as workers at headquarters – there should be an integrated service. This would mean that the UN could be more directly in touch with what went on in the field.

Peacekeeping

The idea that there should be intervention in cases of gross abuses of human rights remains a persuasive one. The *Responsibility to Protect* doctrine was a real step forward in dealing with humanitarian crises such as genocide, ethnic cleansing, war crimes and crimes against humanity. It was approved by both the General Assembly and the Security Council in 2005. For the first time it spelled out explicitly that governments had an obligation to uphold the human rights of their people and that, if they did not, the international community should intervene.

Peace building and democratization

The so-called *Peace-Building Commission* was set up in 2006 to protect the peace and rebuild after conflict. It was supported by a dedicated fund made up of voluntary contributions from states. The tasks involved included restoring public services, training police and administrators and beginning the process of building a working civil society. The use of the term *civil society* was striking: it was now often found in UN, and EU, documents, but had rarely been found before the late 1980s.

The ICC took this further by creating an international jurisdiction under which criminals, including heads of state accused of war crimes, could be tried. UN intervention mandates now usually required that evidence on war crimes should be collected. The Bush administration was opposed to the ICC, but failed to prevent it. The immediate result of issuing an arrest warrant for Sudanese President Bashir for war crimes in Darfur early in 2009 was a worsening of the humanitarian crisis. Nevertheless its appearance must be regarded as extraordinary, in that it established the principle that even heads of government were accountable to the wider community.

Like the *Responsibility to Protect*, the Peace-Building Commission reflected a changing view of sovereignty: that governments had an obligation to uphold the human rights of their people and could be held to account for failure.

Sustainable development

Since the 1980s there had been a marked strengthening of machinery to deal with humanitarian crises in the UN, whether caused by wicked or incompetent government or by natural disaster. An important innovation was the creation in 2006 of the approach known as One UN, to bring all the various UN parties involved in development under a unified management in the target states. There was a major campaign, in which Gordon Brown played a leading role, to cancel the debt obligations of the poorest countries and to increase the level of official aid to the long-standing UN target of 0.07 per cent of GDP.

Tom Farer pointed out that if the United States persisted in its unilateralist strategy, it risked being cast 'as a rogue state, a role not well calculated to enhance the broad measure of international cooperation required to contain the terrorist threat'.⁴ In its first days it appeared that the Obama administration would now actively support multilateral approaches. Almost the first act of the new president was acceptance of the Kyoto agenda and participation in the supporting diplomacy at the Copenhagen conference.

Now is the moment to ask what is next. A brief multilateral agenda would be as follows: On international security a big step would be for the United States to sign up to the ICC. It could show its preparedness to downgrade its unilateralism by closing down the star-wars systems planned for Eastern Europe – and the United Kingdom. It could agree to place forces it allocated to UN peacekeeping under UN command. It could work more energetically to reform the Security Council and help the UN develop its own capacity for gathering intelligence about likely violent conflicts. It could accept further decommissioning of its nuclear weapons.

The United States and the EU need to push ahead more energetically with the Millennium Development Goals and develop the World Bank's capacity for aiding development, supporting democratization and developing civil society. The United States and the EU should make medicines such as antiviral drugs much cheaper and accessible for developing countries, especially in Africa. Steps should be taken to shape trade rules, through the WTO, to help the exports of developing countries. The Doha round of negotiations should be restarted. The unrestrained operation of free market economics has to be restrained to help infant industries, and care should be taken not to drain money out of developing states in the slowdown of the global economy. As Gordon Brown proposed, the IMF should be changed to oversee the global financial system and coordinate anti-cyclical policy.

If anything came of these proposals, perhaps one might be justified in talking about a new world political order, though the last time this seemed possible – in the early 1990s – there was rapid disappointment. But perhaps the context now, including the election of a more multilateralist US President, and the strong evidence of the need for a new economic order, could swing the balance. This book has argued in favour of strengthening and expanding the middle class, and protecting its economic and social inheritance, rather than at promoting what was construed, often wrongly, as working class mores, or growing a limited class of super-rich. That was the task of our time: in Britain promoting the working class had been the job of the previous generation; the current generation was led astray by the Pied Piper of super-wealth, the next needed to enrich the middle.

A new socio-economic order?

What were the green shoots, if any, in the economic system, particularly those of Anglo-America?⁵ In the United States the success of movement conservatism depended on the disorganization, and exclusion from the democratic process, of the people who stood to gain from a more equal society and a more liberal welfare system. They were too easily divided by local or regional loyalties, race issues or religious disagreements. It was astonishing that those who were below the poverty line could be persuaded to vote, as they were across America, in favour of a Republican Party that proposed to reduce the system of welfare from which they benefited. In Britain it was astonishing that there were so many working-class Tories.

In this book some ideas were developed about a middle-class capitalist system, as distinct from one divided into three – cohorts of the poverty stricken, the struggling middle and the extremely rich. The preferred outcome was a global system more like that traditionally found in Scandinavia, or in the United States in the period from 1945 to 1980 – definitely not that of movement conservatism in the United States or of the communist world. It was a world where the norm was to have adequate means, and the most successful were comfortably off. The trickle-down effect could not achieve this. It had to be deliberately engineered. The creation of a class of super-rich was a deliberate policy choice. There must now be policies to deliberately create a stronger middle.

The government ignored the public's opposition to increasingly intrusive surveillance, and one wonders why. Was it really a case of necessary measures to make the world safer in the age of terrorism? Or was it that the British

government had moved from its traditional contempt for the public to fear of it? In contrast, the French governments of the Republics were always scared of their publics – with good reason in view of their tendency to take to the streets. Was it mere coincidence that increased surveillance in the United Kingdom went along with increasing differences in wealth, increasing restrictions on the right to protest in public places – like Parliament Square – and increasing powers of the police under the 2008 Counter-terrorism Act?⁶ This act slipped in several extensions of police powers, including the power to confiscate any pictures taken of them in action and rights to intercept phone conversations and email messages.

Why was this? The middle class thought of itself as the guardian of liberal democracy. It saw itself as the group which defined the core values of the system, persuaded others to accept them, monitored how they evolved and gave them the imprint of their approval. It was the ideological authority. The middle class also held the licence to protest. It originated and provided support for almost all the major protest movements in Britain since the Second World War. But the new surveillance implied that it could not be trusted, and more profoundly that the hydra-headed agents of surveillance were better judges of what was acceptable. The offence was compounded by its intrusion into their private space, half-hidden yet continually encroaching. It was both a challenge to what they stood for and a disguised attempt to control them. In the United States there was still an unwillingness to accept such surveillance. Perhaps this was an indication that the middle in the United States was less under threat than in the United Kingdom.

But there were more specific complaints. The enormous sums spent by the UK government to rescue the banking system were offences to the idea of fairness in many ways.

- The money, variously estimated at up to around £250 billion, came out of general taxation to which many of the CEOs now being bailed out had contributed little or nothing.
- The risks taken by the greedy in the banking system had failed, but their perpetrators paid no penalty. Indeed managers and CEOs took care to protect their own pockets. In both the United States and the United Kingdom the executives of failed banks clung on desperately to their bonuses and colossal pensions, even though these now often came from the public purse.

- The very people who caused the crisis were now asked to put it right. This is not to say that there was another way. Among the people appointed by Prime Minister Gordon Brown to key positions in the FSA were those who had been senior executives in banks that had failed.

The malefactors of the banking world did not go gently, and as the crisis unfolded they began to claw back their losses from those least capable of defending themselves. Having been cornered they bit anyone they could.

- Customers who had taken out Payment Protection Insurance with the post office to pay for mortgages in the event of loss of income were given, as required by law, 30 days' notice of a reduction in the monthly maximum payment from £2,500 to £1,500, with additional charges, and an increase in the period before payment would begin from 30 to 60 days. Other companies did the same.⁷
- The banks deliberately undervalued property, and made it difficult for individuals to challenge their decision, for instance by getting another independent valuation, so that they could increase the interest rate payable. They also sometimes demanded a large cash payment to renew the mortgage to cover what they judged to be negative equity.
- Banks rushed to repossess houses in the face of appeals from the government not to do so. Indeed it seemed that the banks were determined to avail themselves of any excuse to repossess, regardless of whether the owner had a sound plan for making up lost payments. There was a margin of misbehaviour: they had sold mortgages to people who could not pay, but were now forcing repossession on those who – with a little rearrangement – could.
- As interest rates were reduced, the banks did not pass on the benefits of the reduced cost of their borrowing to mortgage holders. They introduced a system of collars which imposed a limit on rate reductions, and imposed new charges when customers looked for lower rates elsewhere. In effect they captured the debt and forced borrowers to pay a higher interest rate. At the same time the banks reduced returns to savers as rapidly as they could.
- Companies made employees redundant, sometimes doubling the expected rate, not because this was necessary to get through, but because the crisis gave them cover to reshape their business.

- The banks played for time in the case of their past excessive charges to customers, for instance on unauthorized overdrafts, by repeatedly appealing against the judgement of the courts that they should be repaid.

All in all, the actions of financial institutions to the crisis did nothing to restore their reputation. Indeed their behaviour confirmed the impression that they did not care much about whether or not they were well regarded. From being pillars of the community a few decades ago they had become the jackals of the high street.

This chapter will not comment on the details of the various rescue plans in the United States and the United Kingdom, as the various solutions being proposed might be pretty much evenly judged as being likely either to succeed or to fail. No one knows. But it was worrying that there was little or no public discussion of what the reformed economy, and its financial system, should look like. Indeed it often appeared that the enormous sums spent on the rescue were intended to recreate the system as it had been before the crash, but without the sub-prime market. Banks would lend as they had before, and house prices would be just as high.

In the previous chapter a wide range of elements of a reformed system was proposed, so they will not be repeated here. Some objectives stand out. There had to be a high degree of specialization of function among banks. Some would be mortgage lenders. Some would be investment bankers. Some would be high-street bankers charged with managing the accounts of individuals and small businesses. There had to be clear limits on borrowing by banks and individuals. The reserves held by banks should be adequate to secure their debts. There should be a tightening of the rules on credit card debt for individuals, and giving credit cards to those who could not repay, such as children, should be an offence. In sum, the quantity of credit, and the ways of creating it, should be carefully managed. This would inevitably check the increase in house prices and moderate consumer spending so that it was sustainable in the long term. The green shoots might be found in this terrain but not in the country we had just left. This had to be faced. It was dangerous to try to return.

It was amusing that the CEOs of General Motors, Chrysler and Ford travelled in their own private jets to Washington to plead with Congress for bail outs of their companies. It was amusing to watch the specialists airing their special insights on how to rescue the economy on television, especially

as many of them had played a part in causing it in the first place. Just as funny was the appearance of the head of Barclays Bank as a television pundit to explain how to put the economy right. To rescue his bank he had taken expensive loans from Qatari financiers, rather than accept the cheaper support of the British government. It was suspected that this was to avoid having to disclose the extent of toxic assets held by his bank and to protect executive's bonuses. Later it became clear that even more support was needed for Barclays.

The first signs?

All this still looks rather black. The search for the green shoots continues. Notice that they are sought in what follows first in the political cultural context – this is where any specific changes in the practices of the economy have to be rooted.

The debate about how to rescue the system brought up the old arguments about socialism and nationalization, the role of the government against that of the private sector. But the agenda on this had moved quite sharply over the past three or four decades. In 2007–8 it was striking that the British New Labour government was petrified at the thought of nationalizing banks, as was seen in the early days of the Northern Rock crisis (see Chapter 5). Even the mention of the word raised the heckles of those in the party who thought they had left all that behind. In the United States, movement conservatism – Krugman's term – rated nationalization as the worst anathema. But by 2009 even in the United States the possibilities were discussed of using the techniques of nationalization under a different name, at least for a short time, until recovery.⁸ This was indeed a massive change in the scenery of political discourse on both sides of the Atlantic. It was probably better that banks should be run by the private sector, but some kind of nationalization as part of a strategy for restoring them when they failed could now be contemplated. It was odd that the plain instrumentality of economics had been so overwhelmed by ideological prejudices.

In the previous chapters care was taken to avoid expressing an ideological preference for state as against private ownership. A new economic charter would, however, stress the rights of the employed to a fair deal. This should include what the International Labour Organization labelled core labour standards, the right to a fair wage, no arbitrary dismissal, no discrimination

on grounds of sex or race, fair notice of redundancy and the right to join a union. These were the standards recommended for the developing world, but they were often lacking even in the member states of the EU. The present writer would add that no worker should be paid less than what was needed to require the payment of income tax. Industries that required its workers to survive on the minimum wage, which could not be lived on in the United Kingdom, and even stole the tips of workers to raise wages to that level – which was the case with some restaurant chains in the United Kingdom in 2009 – simply did not deserve to exist.

What was needed was a new political movement which cut across the agenda of the existing parties in Britain and the United States and was more akin to the social democratic movements of continental Europe. It was surprising that there had not been more vigorous protest about damaged capitalism. But the straws in the winds of the crisis suggested that the emergence of social democracy in Britain on continental European lines was now more likely than it had been since the early- to mid-1970s. Because of the coincidence of the crisis and long-term economic and political trends, we had a glimpse of the end in Britain of the Anglo-American economic model. The right wing of US politics had mounted a vituperative counter-attack on Obamaism, though the extremity of its claims – such as that Obama was intent on creating a fascist state in America – seemed more a mark of desperation than confidence. The far right in Britain, in contrast, seemed relatively isolated, and the new Conservative Party seemed to have moved towards the centre.

In the last period of convergence from the election of Harold Wilson's Labour government in 1964 until the mid-1970s, there was always the chance of difficulty with the Labour left. The pre-Thatcher Conservatives found it easier to work in the political centre ground. It was the left wing of the Labour Party and the powerful and radical unions which challenged the consensus. Thatcher moved the Conservative Party sharply to the right, picking up many of the notions espoused by the Reaganites and the movement conservatives in America. But by the latter years of the first decade of the twenty-first century, both parties had moved back towards the centre ground, though the right wing, anti-European, low welfare and low tax Conservatives were still to be reckoned with, and the neoliberal elements in New Labour had to be cleansed.

In this context it was possible that the crisis could trigger solutions, in institutions and policies, which cut across the older political spectrum. It could facilitate the appearance of a social democratic settlement. In the

United States there was for the first time in 30 years the possibility of the weakening of the coalition of neoliberal economists, rabid right wing ideologues – the neoconservatives and their opportunist acolytes in the media – fundamentalist Christian sects and the super-rich.

It served no purpose to ask companies or bankers to act more in the general interest or to be good. In a capitalist system the overriding interest of managers had to be to make as much money as they could, as much as the rules could be understood as allowing, and to continue to do this for as long as possible. Successful capitalists had to be risk takers and steer as close to the edge of the law as possible, or they would not be successful capitalists. They would not be acting rationally. But they needed to avoid acts which could jeopardize their enterprise in the long term. This was the closest that capitalists should get to the idea of acting morally, because acting in the long-term interest of the system was their deepest self-interest. It was necessary for their own survival.

The judgement of the present writer is that if fault is to be attached to anyone in the present crisis, it should not be attached to the bankers but to the regulators. By regulators is meant anyone who could be judged as being in the regulatory system which in Britain would mean the Bank of England, the Treasury and the Financial Services Authority, but also the responsible ministers and those in Parliament involved in relevant Select Committee and other committees. The explanation of the failure is not just the lack of understanding and attention, though it included those, but also the social setting. They were all in it together. Those who should have been regulating were sipping out of the same champagne glass as the people who should have been regulated. There were indeed supposedly left wing government ministers who could not believe that their chums in the city, whose hospitality they had enjoyed, could possibly be risking the economy. Some were even literally in bed together.

Under New Labour the British economy became the most lightly and incompetently regulated economy in the industrialized world. The New Labour government acquired a blind trust in market forces, and was easy prey for the sharp operators.⁹ One reason for this was the ambiguities of its ideology – it claimed to be the heir of traditional Labour, but also took on some of the ideas of Mrs Thatcher's Conservatives. The ideology of the Third Way¹⁰ became, in practice, not a way to practical compromise between business and the civilized state, but a breach in the wall of socialism through

which the hordes of the Über-capitalists invaded. In practice it meant simply that the Labour government kowtowed to business and carried on with the agenda of Mrs Thatcher, with an admixture rather late in the day of increased social spending.

Conclusions

The economic crisis of the early twenty-first century was remarkable in that it was the apotheosis of such a wide range of trends. Its roots can be found in neoliberalism but also in its political equivalents, right wing Republicanism in the United States and free market conservatism in the United Kingdom, movement conservatism and neoconservatism. There can be very few historical climacterics which have raised such profound doubts about such a wide range of political and economic assumptions. A liberal can but be gratified by the demonstration that it was the collective shibboleths of the right over the past 35 years that brought us to this.

It would be wrong to blame the economic ideology of neoliberalism alone for the crisis. The fault lay as much with the political ideology in which the doctrine of unrestrained free market capitalism was embedded, as well as with the claim that American power should not be subject to such banal arrangements as international law or the UN Charter. Hence Richard Perle, Norman Podhoretz and William Kristol, among the gurus of neoconservatism, were as much to blame as Milton Friedman or the various – now strangely quiet – right wing economists in the United Kingdom. Mrs Thatcher, and her primary economic political gurus, such as Sir Keith Joseph – often referred to as the mad monk – were as much to blame as those officially charged with the task of regulation in Britain and America.

In the universities, doctrinaire political philosophers of the right were as much to blame as the professors of monetary economics. Many of the latter were sitting quietly while the storm developed. Their magical formulae for getting rich had been lapped up by ambitious students, but when they spoke about how to put the crisis right, if they spoke at all, their opinions seemed strangely banal and short of professional expertise. Certainly it was not just the regulation of the banking system that deserved to be never the same again. It was also that the academic discipline of economics would never be the same again, since over and over again professional economists had been wrong, and not just wrong, but grossly wrong.

One might be forgiven for concluding that the last people one should trust to put the banking system right were bankers, and the people one least needed to be in charge were economists. By all means listen to their advice, but then consider it in the light of moral considerations and the chances of success in the light of historical experience. J. K., Galbraith was damned with faint praise by many economists because his economics was not grounded in mathematics, and he insisted on relating a wide range of human interests, needs and characteristics to his economics arguments. Economists talked about him as if he was a kind of light essayist, whose work was much inferior to more modern work, such as their own. It may, however, be that he was right when he said that the only skills a good economist needed were a profound sense of history and the ability to count. Anything more was redundant and, it seemed, dangerous. A good economist was not primarily an economist but a philosopher.

An optimist has to conclude that there were indeed green shoots. But they were only just visible in the debris of a fading ideology.

This page intentionally left blank